

**FORM ADV PART 2A: FIRM BROCHURE**

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**March 30, 2016**

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**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF VICTORY PARK CAPITAL ADVISORS, LLC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (312) 701-1777. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR BY ANY STATE SECURITIES AUTHORITY.**

**ADDITIONAL INFORMATION ABOUT VICTORY PARK CAPITAL ADVISORS, LLC ALSO IS AVAILABLE ON THE SEC’S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).**

**VICTORY PARK CAPITAL ADVISORS, LLC IS AN INVESTMENT ADVISER REGISTERED WITH THE SEC UNDER THE INVESTMENT ADVISERS ACT OF 1940, AS AMENDED (THE “ADVISERS ACT”). HOWEVER, SUCH REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.**

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## **MATERIAL CHANGES**

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Victory Park Capital Advisors, LLC (“VPCA”) filed its most recent Form ADV Part 2 on March 31, 2015. This annual amendment updates the description of the business practices of VPCA and its affiliates, as well as certain matters relating to the VPCA Funds (as defined herein) and their contractual provisions. In addition, this annual amendment includes information relating to a hedge fund managed by an affiliate of VPCA, Vitalogy Opportunity Fund LP, which launched during 2015.

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## ADVISORY BUSINESS

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VPCA was founded in 2007 by Richard Levy and Brendan Carroll, and is principally owned by Jacob Capital, LLC, a company which is wholly owned by Richard Levy.

VPCA acts as a discretionary investment adviser to several private investment funds (each, a “VPCA Fund,” and together with any future private investment fund to which VPCA or its affiliates provide investment advisory services, the “VPCA Funds”), as disclosed in detail in VPCA’s Form ADV Part 1A filing with the SEC, and as described herein. As of the date hereof, VPCA advises:

- (i) a cluster of three private investment funds collectively referred to herein as “Fund I”, consisting of Victory Park Credit Opportunities, L.P., Victory Park Credit Opportunities Intermediate Fund, L.P. and Victory Park Credit Opportunities, Ltd;
- (ii) a cluster of three additional private investment funds collectively referred to herein as “Fund II”, consisting of VPC Fund II, L.P., VPC Intermediate Fund II (Cayman), L.P. and VPC Fund II (Cayman), L.P.;
- (iii) VPC Special Opportunities Fund III Onshore, L.P., a private investment fund referred to herein as “Fund III”;
- (iv) a cluster of eight private investment funds referred to herein as the “Specialty Finance Funds,” consisting of VPC Investor Fund A, L.P., VPC Investor Fund B, LLC, VPC Investor Fund C, L.P., VPC Specialty Finance Fund I, L.P., VPC Offshore Unleveraged Private Debt Fund, L.P., VPC Specialty Lending Fund (NE), L.P., VPC Specialty Lending Feeder Fund (NE), L.P. and VPC Specialty Lending Fund (NE), Ltd.;
- (v) VPC SBIC I, LP, a private investment fund organized and regulated as a small business investment company (the “SBIC Fund”);
- (vi) Vitalogy Opportunity Fund LP, a private investment hedge fund referred to herein as the “Vitalogy Fund.”

In addition to the VPCA Funds listed above, VPCA became an investment advisor to VPC Specialty Lending Investments PLC, a U.K.-based investment company listed on the Main Market of the London Stock Exchange in an initial public offering on March 13, 2015 (the “UK Fund”). Investment in the UK Fund generally is limited to non-U.S. persons, although a limited number of U.S. persons (who met the investor sophistication tests required for private funds described herein) were permitted to invest through private placement. Similar to the Specialty Finance Funds, the UK Fund is focused on specialty lending investments, and is subject to similar operational practices and risks as described herein.

The following registered investment advisers are affiliated with VPCA: (i) Victory Park GP, LLC; (ii) Victory Park GP II, LLC; (iii) VPC SBIC GP, LLC; (iv) VPC Specialty Finance Fund GP I, L.P.; (v) VPC UGP, LLC; (vi) VPC Investor Fund GP A, L.P.; (vii) VPC Investor Fund B, L.P.; (viii) VPC Private Debt Fund GP, L.P.; (ix) VPC Special Opportunities Fund III GP, L.P.; (x) VPC Investor Fund GP C, L.P.; (xi) VPC Specialty Lending Feeder Fund (NE) GP, L.P.; and (xii) Vitalogy GP LP (each, a “General Partner” and together with VPCA and their affiliated entities, the “Advisers”). Vitalogy Capital Partners Management LP (the “Vitalogy Fund Adviser”) is also affiliated with VPCA. Each General Partner and

the Vitalogy Fund Adviser are registered under the Advisers Act pursuant to VPCA's registration in accordance with SEC guidance. This Brochure also describes the business practices of the General Partners, which operate as a single advisory business together with VPCA.

The SBIC Fund is licensed by the SBA as a small business investment company ("SBIC") under the Small Business Investment Act of 1958 and the regulations promulgated thereunder (the "SBIC Act") to conduct the activities described under the SBIC Act. The SBIC Fund will have access to up to 2.0 times the amount of capital committed to the SBIC Fund by investors through the issuance of non-recourse debentures guaranteed by the SBA ("SBA Debentures"). As an SBIC, the SBIC Fund has the powers and responsibilities, and is subject to the limitations, provided in the SBIC Act. The SBA has regulatory authority over the SBIC Fund as a licensed SBIC under the provisions of the SBIC Act. The SBIC Fund must maintain and file certain records including valuation guidelines, annual reports containing financial, management and other information, and file notices of certain material changes in its ownership and operations. The SBIC Fund is also subject to periodic examination by the SBA. Furthermore, the SBIC Fund is required to maintain certain minimum levels of capital.

The Advisers' activities for the VPCA Funds are detailed in the applicable private placement memorandum and limited partnership agreement, articles of association, or other operating or advisory agreement, as applicable (the "Governing Documents"), and are further described below under "Methods of Analysis, Investment Strategies and Risk of Loss." Limited partners or shareholders, as applicable (each, an "Investor"), in the VPCA Funds generally participate in the overall investment program of the applicable Fund, although certain Investors in the VPCA Funds may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the relevant Governing Documents.

VPCA's investment strategy for the VPCA Funds (other than the Vitalogy Fund) generally focuses on investing directly in the private credit and equity of small capitalization public and middle market private companies located primarily in the U.S. and Europe, although other locations may be possible. In particular, the VPCA Funds typically seek to provide direct financing to such companies that are in complex situations that may reduce the availability of traditional financing (the "Target Companies"). In the case of the Specialty Finance Funds and the UK Fund, VPCA implements the foregoing investment strategy with a targeted focus on providing privately negotiated loans to, or purchasing whole loans originated by, lower middle market companies operating across different sub-sectors within the specialty finance industry, including, but not limited to, sub- and near-prime unsecured consumer lending, merchant cash advance, legal settlement finance, online pawn, sub-prime auto, and title lending. The Specialty Finance Funds and the UK Fund may also invest in loans to individuals through finance platforms.

For the Vitalogy Fund, the Adviser's investment strategy differs from that of the other VPCA Funds and generally focuses on a hedge fund-style strategy by investing in non-control positions in a portfolio of long and short securities across the capital structure of issuers in relatively large and liquid markets. Certain important differences between the Vitalogy Fund and the other VPCA Funds are noted throughout this Brochure.

Additionally, from time to time, the Advisers may provide (or agree to provide) to certain investors or other persons, co-investment opportunities that will invest in certain financing opportunities and/or other investments alongside a Fund. Such co-investments typically involve investment and disposal of the relevant investment at the same time and on substantially the same terms as the VPCA Fund making the investment. However, from time to time, for strategic and other reasons, a VPCA Fund, or a co-investor or other co-invest vehicle, may purchase a portion of an investment from one or more VPCA Funds after such VPCA Funds have consummated their investment, at fair market value in accordance with VPCA's

related procedures (for example, in a post-closing sell-down or transfer). Any such purchase from a VPCA Fund generally occurs within a reasonable period of time after the VPCA Fund's completion of the investment and the purchaser, whether a VPCA Fund or other vehicle, generally will be required to pay the relevant VPCA Fund for related costs.

VPCA has discretionary investment authority over the assets of the VPCA Funds. As of December 31, 2015, VPCA managed approximately \$2.963 billion of client assets on a discretionary basis.

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## FEES AND COMPENSATION

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The Advisers receive both asset-based and performance-based compensation from the VPCA Funds. The amount of the management fees are determined in accordance with the terms of the Governing Documents of each VPCA Fund and summarized below. Investors in a VPCA Fund also bear certain expenses.

### **Management Fees**

*Fund I, Fund II, Fund III, SBIC and Specialty Finance Funds.* As specified in the relevant Governing Documents, each VPCA Fund will pay VPCA, quarterly in advance or monthly in arrears (as specified therein), a management fee (the "Management Fee") equal to a specified percentage annual percentage of aggregate either VPCA Fund investor capital commitments ("Commitments"), invested capital, unreturned acquisition cost of the investments or the net asset value of the fund. Fund II and Fund III investors participating in a closing after the initial closing date of a VPCA Fund generally bear the Management Fee from the initial closing date. For certain VPCA Funds (e.g., Fund III) the Management Fee will be reduced and will equal a specified percentage of (i) the aggregate cost of portfolio investments plus the aggregated amount of unapplied waived Management Fee, as reduced by (ii) permanent write downs and distributions constituting returns of capital, generally upon the earliest to occur of (a) the end of the investment period of such VPCA Fund, (b) the date on which VPCA begins to accrue fees from a similar but successive VPCA Fund and (c) certain key person events, in each case, as specified in the relevant Governing Documents. The Management Fee generally will be payable until all portfolio investments are distributed or until VPCA's relationship with the VPCA Fund is terminated for other reasons (as described in the relevant Governing Documents). Installments of the Management Fee payable for any period other than a full quarterly period are adjusted on pro rata basis according to the actual number of days in such period.

In addition to Management Fees and carried interest, VPCA may be paid certain supplemental fees ("Supplemental Fees") in connection with providing services to a VPCA Fund, portfolio company or prospective portfolio company, including directors' fees, closing fees, investment banking fees, placement fees, commitment fees, break-up fees, litigation proceeds from transactions not consummated, monitoring fees, consulting fees and other similar fees. Supplemental Fees generally are paid to VPCA by the relevant portfolio company, and Supplemental Fees received by VPCA are applied to offset the Management Fee. To the extent that such an offset credit would reduce the Management Fee for a given quarterly period below zero, the credit will be carried forward for future application against payable Management Fees and if a credit remains upon liquidation a payment will be made crediting limited partners unless a limited partner has elected to waive such amount (e.g., where an adverse tax consequence may result).

Certain Governing Documents permit VPCA to waive or agree to reduce the Management Fee. Certain waived portions of the Management Fee generally are treated by each relevant Governing Document as a deemed capital contribution by the relevant General Partner, which is effectively invested in the relevant Fund on such General Partner's behalf, and operates to reduce the amount of capital such General Partner would otherwise be required to contribute to the relevant VPCA Fund. The limited partners of any such VPCA Fund may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of VPCA in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration (or delay) of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above, and the amount of such waived or reduced Management Fees has the potential to be significant. Due to waived or reduced Management Fees by VPCA and/or the timing of receipt of compensation subject to offsets (as described above), it is possible that Management Fee offsets will not be fully realized by investors in a VPCA Fund, resulting in a net additional benefit to VPCA.

*Vitalogy Fund.* With respect to the Vitalogy Fund, the management fee is payable quarterly in arrears and is calculated and accrued monthly as a specified percentage (generally 1.5%, subject to variations for certain investors specified in the Governing Documents) of the net asset value of the Vitalogy Fund, as further specified in the Governing Documents.

*Co-Investor Management Fees.* Under certain circumstances, VPCA may also render advisory services to certain clients who are allowed to "co-invest" in one or more of the same financing transactions as the VPCA Funds. These co-investor clients will be charged an asset-based advisory fee, but typically will not be charged the same performance-based compensation (as described below) as investors in the VPCA Funds (although alternative fee arrangements may be agreed with a particular client under special circumstances).

### **Performance-Based Compensation**

The Advisers also receive performance-based compensation from the VPCA Funds, as follows:

*Fund I, Fund II, Fund III, SBIC and Specialty Finance Funds.* As compensation for its management of the VPCA Funds, as set forth in the relevant Governing Documents, an Adviser is entitled to receive carried interest distributions equal to a specified percentage of realized profits from portfolio investments. Where applicable, any carried interest due to the Adviser is determined after the investors in the applicable VPCA Fund have received distributions in an amount equal to their aggregate unreturned capital contributions (or in some cases, a single portfolio investment), plus a "preferred return" (compounded annually) on such unreturned capital contributions, where applicable (however, the UK Fund and certain VPCA funds, including the Vitalogy Fund, are allocated an annual performance allocation on the basis of realized and unrealized investments).

With respect to any remaining amounts to be distributed after these amounts have been distributed to the investors in the VPCA Fund, an Adviser generally will be entitled to receive (i) first, a "catch-up" distribution with respect to the preferred return paid to the investors (as described above), such that the Advisers receive an amount ranging from 15% to 20% of the profit, as specified in the relevant Governing Documents, and (ii) thereafter, a range of 15% to 20% of any distributable amounts (with the remaining being distributed to the investors). The carried interest with respect to a VPCA Fund generally is subject to a "clawback" to the extent amounts previously distributed to the applicable Adviser by such fund exceed the aggregate amount due to such Adviser as its carried interest on a cumulative basis over the life of such VPCA Fund. Subject to applicable regulations, each VPCA Fund is generally expected to make distributions of net cash proceeds from dispositions (or repayment) of its investments within 90 days of

realization, and distributions of current income (such as dividends and interest income) and other income received with respect to their investments at least quarterly, in each case after paying applicable fund expenses and setting aside reserves to satisfy expenses, obligations and liabilities.

*Vitalogy Fund.* As further specified in the Governing Documents, the General Partner of the Vitalogy Fund also receives an annual performance fee from each investor in an amount equal to a specified percentage (generally 20%) of such investor's share of annual net profits, subject to a loss recovery provision that is intended to prevent investors from paying a performance fee until any prior losses relating to such investor's investment have been recovered.

### **Other Information**

The Advisers may exempt certain investors in the Funds from payment of all or a portion of management fees and/or carried interest, including the Advisers and any other person designated by the Advisers. Any such exemption from fees and/or carried interest may be made by a direct exemption, a rebate by VPCA and/or its affiliates, or through other VPCA Funds which co-invest with a VPCA Fund. For example, in instances where a VPCA professional or its affiliate invests in a VPCA Fund, such professional or its affiliate generally will be exempt from payment of the management fee and carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant Governing Documents, certain Advisers may have the right to permit investors, affiliated with an Adviser or otherwise, to invest through the relevant General Partner or other vehicles that do not bear management fee or carried interest.

The VPCA Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the relevant Governing Documents, over the term of the relevant VPCA Fund, and investors in the VPCA Funds (excluding the Vitalogy Fund) generally are not permitted to withdraw or redeem their interests in such entities. Investors in the Vitalogy Fund periodically may withdraw all or a portion of their interests, subject to various restrictions as specified in the relevant Governing Documents.

Principals or other current or former employees of VPCA may receive a portion of the management fee, carried interest or other compensation received by VPCA or its affiliates.

*Expenses.* The VPCA Funds incur expenses in connection with VPCA's advisory services. Each VPCA Fund has incurred legal and organizational expenses in connection with its formation and initial offering, which will be borne by the applicable VPCA Fund (and, therefore, indirectly by its investors). Subject to variations in a VPCA Fund's Governing Documents, each VPCA Fund will also bear ongoing expenses which generally include the following: (i) all costs, expenses, liabilities and obligations attributable to structuring, organizing, acquiring, managing, monitoring, operating, holding, valuing, winding up, liquidating, dissolving and disposing of the VPCA Fund's investments (including interest on money borrowed by the VPCA Fund, loan administration fees and expenses, registration expenses and brokerage, finders', custodial and other fees), (ii) private placement fees, sale commissions, appraisal fees, brokerage fees, underwriting commissions and discounts, legal, investment banking, auditing, consulting, financing, accounting, custodian, depository, trustee, record keeping, valuation, administration, information services, insurance (including directors and officers and errors and omissions liability insurance), travel, litigation and indemnification costs and expenses, judgments and settlements, finders', financing, filing, expenses incurred in connection with any amendments to the constituent documents of the VPCA Fund, expenses incurred in connection with the dissolution, liquidation and final winding-up of the VPCA Fund and other fees and expenses (including expenses associated with the preparation or distribution of the VPCA Fund's financial statements, tax returns and Schedule K-1s or any other administrative, regulatory or other fund-related reporting or filing), (iii) expenses of an advisory committee (iv) all costs, expenses, liabilities and obligations incurred by the VPCA Fund or its general partner relating to investment and disposition



opportunities for the VPCA Fund not consummated (including legal, accounting, auditing, insurance, travel, consulting, finders', financing, appraisal, filing, printing, real estate title, survey and other fees and expenses), (v) all out-of-pocket fees and expenses incurred by the VPCA Fund, or its general partner in connection with the annual and other periodic (if any) meetings of the limited partners and any other conference or meeting with any limited partner(s), (vi) the management fee, (vii) any taxes, fees and other governmental charges levied against the VPCA Fund (except to the extent that the VPCA Fund is reimbursed or such tax, fee or charge is treated as having been distributed to the limited partners, (viii) placement fees, (ix) any and all reasonable costs and expenses incurred in connection with the promotion of the VPCA Fund's reputation and visibility for the benefit of the fund, (x) costs and expenses that are classified as extraordinary expenses under GAAP, and (xi) all costs and expenses incurred in connection with the organization, management, operation and dissolution, liquidation and final winding-up of any alternative investment vehicles.

*Supplemental Fees.* In connection with the investments of the VPCA Funds, Supplemental Fees may be paid to VPCA or one or more of its affiliates by the Target Company or other third parties. Such Supplemental Fees may be retained in full by VPCA or such affiliates. The receipt of Supplemental Fees and other compensation by VPCA and its affiliates in connection with investments made by VPCA's clients creates a potential conflict of interest, as it could be seen as providing an incentive for VPCA to cause its clients to make investments they would not otherwise make, or for structuring investments for the purpose of helping VPCA and/or its affiliates obtain fee compensation at the expense the deal terms accorded to VPCA's clients. To help mitigate this potential conflict of interest, VPCA and its advisory affiliates have agreed with certain clients that the Supplemental Fees received by VPCA or such advisory affiliates may offset, in whole or in part, other compensation due to the Advisers (*e.g.*, the Management Fee) from such clients, as described above.

*Investors and prospective investors should carefully review the Governing Documents of the applicable VPCA Fund(s) for further information about the fees and expenses charged to investors. Such documents are available only to current investors or prospective investors who are eligible to invest in such entities, as determined in the sole discretion of VPCA.*

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## PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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As described under "Fees and Compensation," the Advisers receive carried interest or performance fees on certain profits in the VPCA Funds. The VPCA Funds are all subject to carried interest or performance-based fees, although the Advisers may waive such compensation with respect to certain affiliates or other persons.

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## TYPES OF CLIENTS

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VPCA provides investment advice primarily to private investment funds operated by VPCA or the other VPC Affiliates. The VPCA Funds include investment limited partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in the Funds may include individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of VPCA and its affiliates and members of their families, or other service providers retained by VPCA.

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## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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VPCA's investment program for Fund I, Fund II, Fund III and the SBIC Fund focuses on assembling a portfolio of credit and equity investments in small-capitalization public and lower middle market private companies, primarily in the U.S. VPCA will concentrate on investments that offer collateral protection in downside scenarios while generating current yield through receipt of ongoing interest payments and significant equity participation through both control and non-control ownership positions in the Target Company.

In addition, VPCA's investment program for the Specialty Finance Funds, the Specialty Lending Funds and the UK Fund primarily focuses on providing capital to lenders in the specialty finance sector, including (i) directly, by making privately negotiated loans to lower middle market companies operating within various sub-sectors (*e.g.*, sub- and near-prime unsecured consumer lending, merchant cash advance, legal settlement finance, online pawn, sub-prime auto and title lending), and/or (ii) indirectly, through the purchase of loans and/or related securities originated by various specialty finance lending platforms ("Platforms"). The Specialty Finance Funds, the Specialty Lending Funds and the UK Fund will lend to both U.S. and European-based companies. VPCA believes the specialty finance sector strategy is a natural complement to the broader credit strategy employed by other VPCA Funds.

### Investment Strategy.

*Generally.* VPCA seeks to invest in Target Companies that VPCA believes have the potential for value enhancement as a result of current economic conditions, operational inefficiencies or prior mismanagement. VPCA will select Target Companies that satisfy certain criteria selected by VPCA.

These criteria may include:

- Cooperative and competent management team
- Sustainable business model with stable and/or improving operational results
- Strong collateral and structural protection in the credit transaction
- Potential for equity participation in the Target Company or additional upside in the value of the investment

VPCA's clients will invest primarily in privately sourced and negotiated senior secured credit instruments that VPCA believes will provide its clients with an attractive yield, while also seeking to generate additional upside for its clients through control and non-control positions in the equity of the Target Company (which may include the use of securities that are "convertible" from credit instruments to equity and/or credit for equity swaps). VPCA's investments may include various types of credit structures, such as senior secured loans, bridge loans, convertible loans, specialty loans and debtor-in-possession financings. VPCA clients are expected to extend credit primarily on a senior secured basis, and VPCA generally attempts to mitigate the risk associated with these transactions by perfecting security interests against all available assets of each Target Company. VPCA's strategy generally involves credit transactions identified by VPCA, but its clients may also acquire or participate in loans originated by others, such as consumer and small business whole loans offered through online specialty lending platforms. VPCA may also invest in stand-alone control or minority equity investments on behalf of its clients.

VPCA will pursue opportunities with distinct and identifiable potential for value enhancement where it can serve as a trusted advisor as well as a valued investor in the Target Company. After making an investment, VPCA will place considerable focus on active, value-added monitoring and risk management. VPCA may use various techniques in an effort to enhance the value of the investment, which may include

corporate finance and business development initiatives, investor introductions and, when deemed necessary, an active operational role through board representation, observer rights and control positions.

*Specialty Finance Sector.* The Specialty Finance Funds and UK Fund intend to make several privately negotiated loans to lower middle market companies operating in the specialty finance sector with the objective of generating attractive current yields and total returns. VPCA expects an average loan duration of three years, which is a shorter tenure than loans made by traditional lenders. VPCA expects that most loans will contain origination and other fees and may have additional potential upside from minority equity positions or warrants. VPCA intends to create a diversified portfolio across various asset classes and credit bands, primarily through various types of lending and other relationships with existing specialty financing lending platforms (“Platforms”) primarily in the U.S. and Europe.

Direct investments in the specialty lending sector may include consumer loans, small and medium enterprise loans, advances against corporate trade receivables and/or purchases of corporate trade receivables originated by Platforms. These debt instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans. Indirect investments may include investments in Platforms (or in structures set up by Platforms) through the provision of credit facilities (“Credit Facilities”), equity or other instruments.

With respect to the specialty financing sector, VPCA believes that various market dynamics, including a liquidity shortage for lower middle market companies generally, have resulted in an increased demand for non-traditional, smaller-scale financing solutions. VPCA believes this liquidity shortage and corresponding rise in demand for alternative financing solutions potentially will provide (i) attractive investment opportunities for non-traditional lenders such as those in the specialty finance sector, and (ii) more negotiating power with respect to investment terms, potentially translating into a more favorable risk/reward profile for investors in the Specialty Finance Funds and UK Fund.

### **Investment Process.**

VPCA may receive information about prospective investment opportunities from a number of sources, which may include opportunities presented to VPCA directly by Target Companies or by third-party investment bankers. Potential investment opportunities are reviewed by VPCA, generally on a weekly basis.

When VPCA identifies a prospective investment, it will conduct an initial company, industry, business, financial and asset evaluation by utilizing a combination of VPCA’s own proprietary processes, public filings and industry research, as well as speaking with current investors, customers, suppliers and/or other related parties. VPCA will subsequently evaluate the levels of tangible and intangible collateral value available to secure any loan made to the Target Company.

VPCA also intends to assess each investment opportunity in relation to the portfolio construction of its clients in an effort to ensure that the transaction size and industry exposure fits within such client’s investment strategy and targeted allocations, as applicable. VPCA will construct its investments with liquidity terms that it believes are appropriate for the specific Target Company’s strategy.

Prior to completing an investment, VPCA will conduct due diligence with a focus on ongoing collateral, operational and financial monitoring, which is important to managing risk over the life of the investment. Third-party due diligence is used to supplement and verify VPCA’s in-house due diligence. VPCA will establish the structure, the covenants, reporting and examination requirements applicable to the Target Company in an effort to continually gauge the financial health of the Target Company.

*Vitalogy Fund.* The Vitalogy Fund Adviser's investment program primarily focuses on investing in non-control positions in a portfolio of long and short securities across the capital structure of issuers in relatively large and liquid markets. The Vitalogy Fund Adviser seeks to achieve positive risk-adjusted returns for its investors. The hedge fund strategy of the Vitalogy Fund differs significantly from that of other VPCA Funds. On an ongoing basis, the Vitalogy Fund Adviser evaluates market dynamics, major market events and issuers' lifecycles in order to identify potential investment opportunities for the Vitalogy Fund. Typically, the Vitalogy Fund Adviser is looking for event-driven and idiosyncratic investment opportunities that tend to arise after major marketwide or issuer-specific disruptions. After identifying an opportunity, the Vitalogy Fund Adviser undertakes a fundamental analysis of the security as a component of its decision whether to include the security in the Vitalogy Fund portfolio.

There are no significant limitations or diversification requirements applicable to the Vitalogy Fund's portfolio. However, the Vitalogy Fund Adviser's primary strategy for the Vitalogy Fund seeks to identify potentially favorable event-driven investment opportunities to which it believes other market actors may react irrationally. Based on market dynamics and the availability of such opportunities, the Vitalogy Fund Adviser will construct a portfolio of long and short securities across affected issuers' capital structures. After identifying a relevant opportunity, the Vitalogy Fund Adviser undertakes a fundamental analysis of an issuer and the applicable event driving the Vitalogy Fund Adviser's interest, including, among other things, an assessment of the expected impact of the event, the incentives and motivations of other stakeholders, future exit opportunities, valuation, potential for asymmetric returns and the effect of a given security selection on the Vitalogy Fund's existing portfolio.

*Investors and prospective investors should carefully review the offering documents of the applicable VPCA Fund(s) for further discussion of its investment objective and strategy. Such documents are available only to current investors or prospective investors who are eligible to invest in such entities, as determined in the sole discretion of VPCA.*

### **Certain Risk Factors Generally Applicable to VPCA Funds.**

The identification of attractive investment opportunities is difficult and involves a significant degree of uncertainty. Prospective investors should consider the following risks before engaging VPCA to manage their accounts, or investing in a VPCA Fund.

*Business Risks.* A VPCA Fund's investment portfolio may consist primarily of investments in privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses. Additionally, as the Vitalogy Fund's investment portfolio is expected to consist primarily of liquid securities issued by publicly-traded companies, operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses. Such risks include, without limitation, volatility in the valuation of such companies, lack of control over the management of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Vitalogy Fund to dispose of such securities at certain times, and increased costs associated with each of the aforementioned risks.

*Market Conditions.* Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates or foreign exchange rates, could have a negative impact on the performance and/or valuation of the VPCA Funds and their investment portfolios. The VPCA Funds' performance can be affected by deterioration in public markets and by market events, such as, in recent years, the onset of the credit crisis in the summer of 2007 or the downgrading of the credit rating of the United States in 2011. Movements in foreign exchange rates may adversely affect the value of investments in securities and the performance of one or more VPCA Funds. The value of publicly traded

securities may be volatile. The impact of market and other economic events may also affect a VPCA Fund's ability to raise funding to support its investment objective and also the level of profitability achieved on realizations of investments.

*Nature of VPCA's Investments.* VPCA will invest in a variety of credit and equity securities on behalf of its clients. Typically these investments are senior secured; however, in some instances VPCA may invest in unsecured junior debt or structured equity subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. In addition, these securities may not be protected by financial covenants or limitations upon additional indebtedness and may have limited liquidity. Credit instruments are also subject to other creditor risks, including (i) the possible invalidation of an investment transaction as a "fraudulent conveyance" under relevant creditors' rights laws, (ii) so-called lender liability claims by the issuer of the obligations and (iii) environmental liabilities that may arise with respect to collateral securing the obligations.

A portion of VPCA's investments will be in equity or equity-related investments which by their nature involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in substantial losses. There can be no assurance that VPCA will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of VPCA's activities. As a result, VPCA's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

Some of the companies in which VPCA will invest are expected to employ considerable leverage, including leverage provided by VPCA's clients (such as the VPCA Funds), a significant portion of which may be at floating interest rates. To the extent a VPCA client is a subordinate lender or equity investor, the leveraged capital structure of portfolio companies will increase the exposure of such client's investments to any deterioration in a company's condition or industry, competitive pressures, an adverse economic environment or rising interest rates. VPCA's investments may be among the most junior financing in a portfolio company's capital structure. If a Target Company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the principal amount of a VPCA client's subordinated debt investment may be at significant risk, and the value of the equity portion of the client's investment in that company may be significantly reduced or eliminated.

VPCA clients may co-invest in a company with financial, strategic or other third-party investors. Such investments will involve additional risks not present in investments where a third party is not involved, including the possibility that the co-investor may have interests or objectives that are inconsistent with those of VPCA's client or may be in a position to take action contrary to VPCA's investment objectives. In addition, VPCA's clients may in certain circumstances be liable for actions of its third party co-venturers or partners.

Companies in which VPCA invests may be subject to contingent liabilities. These liabilities may be material and may include liabilities associated with pending litigation, regulatory investigations or environmental actions, among other things. To the extent these liabilities are realized, they may materially adversely affect the value of a portfolio company. In addition, if a VPCA client has assumed or guaranteed these liabilities, the obligation would be payable from the assets of such client (which may include unfunded capital commitments of investors, where applicable). In connection with the disposition of an investment in private securities, the seller may be required to make representations about the business and financial affairs of the company typical of those made in connection with the sale of a business. The seller also may be required to indemnify the purchasers of such investment to the extent

that any such representations turn out to be inaccurate. These arrangements may result in liabilities that must be satisfied by VPCA clients (and investors therein).

VPCA is likely to make minority equity investments in companies. Such companies may have economic or business interests or goals that are inconsistent with those of VPCA's clients, and such clients may not be in a position to limit or otherwise protect the value of their investment in the companies, although as a condition of making such investments, it is expected that appropriate shareholder rights generally will be sought to protect the clients' investments. VPCA's and its clients' control over the investment policies of the companies also will be limited.

*Non-Payment of Principal and Interest; Adequacy of Collateral.* A VPCA Fund's investments are subject to the risk of non-payment of scheduled interest or principal by the borrowers with respect to such investments. Such non-payment would likely result in a reduction of income to the VPCA Fund and a reduction in the value of the loans experiencing non-payment. Although a VPCA Fund may make investments that the General Partner believes are secured by specific collateral, there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments with respect to such investment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the VPCA Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing an investment a portfolio company. Under certain circumstances, collateral securing an investment in a portfolio company may be released without the consent of the VPCA Fund. Moreover, a VPCA Fund's security interests may be unperfected for a variety of reasons, including the failure to make required filings by lenders and, as a result, the VPCA Fund may not have priority over other creditors as anticipated.

*Prepayment of Investments.* While an investment may have a stated maturity, borrowers may prepay their loans prior to such maturity. Early prepayment, particularly by good credits, reduces a VPCA Fund's opportunity to make long-term compounded returns. Later prepayment, particularly by weaker credits, can tie up the VPCA Fund's capital in investments which may have a greater risk of default. Either way, the shortening or lengthening of the holding period may prevent a VPCA Fund from realizing its projected returns.

*Direct Lending.* VPCA's clients may provide direct lending to portfolio companies. VPCA's success in achieving its investment objectives will depend heavily on its analyses of these potential borrowers' creditworthiness. VPCA's investment strategy generally focuses on small-capitalization public and lower middle market private companies that may have little or no track record, so there can be no assurance that VPCA can accurately determine the creditworthiness of such borrowers. VPCA's performance could be adversely affected if a borrower defaults on its loan payments. If a promissory note or other credit instrument were to become subject to such an event of default, VPCA's clients may incur significant expenses in exercising their rights as a secured or unsecured creditor that will adversely affect the value of their investment. Alternatively, upon an event of default, VPCA may choose to enter into negotiations or restructuring of a borrower's loan which may entail, among other things, a substantial reduction in the interest rate and/or a substantial writedown of the principal of the loan, each of which could have a material adverse effect on VPCA's clients.

VPCA is not restricted from making second lien, mezzanine, subordinated or unsecured loans on behalf of its clients. When a borrower defaults on an unsecured loan the lender's only recourse against the borrower is generally to accelerate the loan and enter into costly litigation to recover the outstanding principal and interest. There is no assurance that such litigation would result in full repayment of the loan. Also, see "*—Second Lien Loans,*" "*—Mezzanine Loans,*" and "*—Subordinated Loans*" below.

*Fraud.* Of key concern in loan and other debt investing is the possibility of material misrepresentation or omission on the part of the issuer. Such inaccuracy or incompleteness may adversely affect the valuation of a VPCA Fund's investments. A VPCA Fund will rely upon the accuracy and completeness of representations made by issuers to the extent the General Partner's principals believe to be reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a VPCA Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Lender Liability Considerations and Equitable Subordination.* In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, including equitable subordination (collectively termed "Lender Liability"). Generally, Lender Liability is founded upon the premise that the institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower. A VPCA Fund, as a creditor, may be subject to allegations of Lender Liability. Furthermore, a VPCA Fund may be unable to control the conduct of the lenders under a loan syndication agreement requiring less than a unanimous vote, yet the VPCA Fund may be subject to Lender Liability for such conduct.

In limited cases, courts have subordinated the claim of a lender against a borrower to claims of other creditors of the borrower especially when the lending institution is found to have engaged in unfair, inequitable or fraudulent conduct. Because of the nature of certain of a VPCA Fund's investments, the VPCA Fund could be subject to claims from creditors of an issuer of a debt instrument in the VPCA Fund's investment portfolio that such debt instrument should be equitably subordinated. As indicated above with respect to claims of Lender Liability, a VPCA Fund could be subject to such a claim based upon the conduct of others, such as lenders in a syndicate, over which it did not have control.

*Second Lien Loans.* The loans originated or acquired by VPCA clients may include second lien loans. Second lien loans are subject to the same risks associated with loans in general described above under "*—Direct Lending.*" However, second lien loans are subordinate in right of payment to one or more senior secured loans of the related borrower and therefore are subject to additional risk that the cash flow of the related borrower and the property securing the loan may be insufficient to repay the scheduled payments to the lender after giving effect to any senior secured obligations of the related borrower. Second lien loans are also expected to be a more illiquid investment than senior secured loans for such reason. There also is less likelihood that VPCA will be able to sell participations in second lien loans that it originates or acquires on behalf of its clients, which would expose VPCA's clients to increased risk.

*Subordinated Loans.* The loans originated or acquired by VPCA on behalf of its clients may include subordinated loans, including loans subordinate to other VPCA clients. Subordinated loans are subject to the same risks associated with loans in general described above under "*—Direct Lending.*" However, because subordinated loans represent the most subordinated class of a borrower's debt structure and are expected to be unsecured, subordinated loans represent a highly leveraged investment in the borrower which (aside from equity) suffers the greatest risk of loss including a risk of loss of the entire investment. Subordinated loans are also expected to be particularly illiquid investments. There can be no assurance that VPCA will be able to sell participations in subordinated loans that it acquires on behalf of its clients, which would expose VPCA's clients to increased risk.

*Mezzanine Loans.* The loans originated or acquired by VPCA on behalf of its clients may include mezzanine loans. Mezzanine loans are subject to the same risks associated with loans in general described above under "*—Direct Lending.*" However, mezzanine loans are not a senior secured obligation of the related borrower and may be unsecured, and therefore are subject to the additional risk that the cash flow

of the related borrower and the property securing the loan (if any) may be insufficient to repay the scheduled payments to the lender after giving effect to any senior obligations of the related borrower. Mezzanine loans are also expected to be highly illiquid investments. There can be no assurance that VPCA will be able to sell participations in mezzanine loans that it originates or acquires, on behalf of its clients, which would expose VPCA's clients to increased risk. Mezzanine loans originated or acquired by VPCA's clients will be subject to certain additional risks to the extent that such loans may not be protected by financial covenants or limitations upon additional indebtedness.

*Special Situations.* VPCA's clients may invest in (or lend to) companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transformative transactions. Such investments may include debtor-in-possession financing. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security with a value less than the purchase price of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a VPCA client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which VPCA's clients may invest, there is a potential risk of loss by a VPCA client of its entire investment in such companies.

*Preferred Stock and Convertible Instruments.* VPCA may invest in preferred stocks and convertible instruments on behalf of its clients. In the case of preferred stocks, holders are often entitled to receive fixed dividends from the issuer, and their claim on the issuer's income and assets ranks before that of holders of common stock, but after that of creditors. VPCA may also invest in convertible securities and warrants on behalf of its clients. Convertible securities are generally debt or preferred stock securities that may be converted at either a stated price or a stated ratio into underlying shares of common stock. Warrants are securities that permit their owners to purchase a specific number of stock shares at a predetermined price in the future.

There are specific risks associated with preferred investments. An issuer typically may redeem its preferred securities at predetermined redemption prices. Any such redemption may negatively impact a client's performance if redemption proceeds from redeemed investments cannot be reinvested in securities paying comparable rates of return. Generally, holders of preferred investments have no or very limited voting rights with respect to the issuer. The holders may be negatively impacted if they have no input into the manner in which the issuer is conducting its business and the securities are illiquid, making it difficult for the holders to divest themselves of the securities. The dividends from a preferred investment could be non-cumulative, meaning that at any given time, the holder would only have a claim for the dividends of the immediate period, not past periods during which the issuer did not have sufficient earnings to pay dividends.

Preferred securities are typically subordinated to bonds and other debt instruments of the issuer and therefore are subject to greater credit risk than such securities, meaning that there is a risk that the investment will decline in price or the issuer will fail to make a dividend or interest payment when due because of a degradation in its financial status. Preferred investments also are subject to interest rate risk.

*Investments in Lower Middle Market Private Companies.* Investments in lower middle market companies such as those VPCA targets, while often presenting greater opportunities for growth also entail larger risks than are customarily associated with investments in large companies. Medium-sized companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional



financing, which may not be available on acceptable terms when required. Furthermore, there is ordinarily a more limited marketplace for the sale of interests in smaller, private companies, which may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investments in small- and medium-sized companies, could make it difficult for VPCA to react quickly to negative economic or political developments.

*Investments in the Specialty Finance Industry.* As noted above under “Advisory Business”, the Specialty Finance Funds and UK Fund implement VPCA’s proprietary investment strategy with a focus on portfolio companies operating across different sub-sectors of the specialty finance industry. Investments in the specialty finance industry are subject to various industry specific risks (including additional risks related to the various segments of the specialty finance industry). Specifically, various segments of the specialty finance industry are (or may become) highly regulated at both the federal and state levels in the United States (including as a result of the creation of the Consumer Financial Protection Bureau) and internationally and subject to frequent regulatory changes. While the Specialty Finance Funds and UK Fund intend to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory environment or requirements, could have a material adverse effect on the operations of the companies in which the Specialty Finance Funds and UK Fund invest.

*Limited Secondary Market and Liquidity.* There is currently no formal secondary market operated by any of the specialty lending online platforms through which the Specialty Finance Funds and UK Fund may invest in relation to the sale of whole loans. There is currently very limited liquidity in the secondary trading of these investments. Until an active secondary market develops, the Company will primarily adhere to a “lend and hold” strategy and will not necessarily be able to access significant liquidity. In the event of adverse economic conditions in which it would be preferable for Specialty Finance Funds and UK Fund to sell certain of its assets, the Specialty Finance Funds and UK Fund may not be able to sell a sufficient proportion of its portfolio as a result of liquidity constraints. In such circumstances, the overall returns to the Specialty Finance Funds and UK Fund from its investments may be adversely affected.

*Risks Associated with Specialty Lending Online Platforms’ Credit Scoring Models.* A prospective borrower is assigned a loan grade by a specialty lending online platform based on a number of factors, including the borrower’s credit score and credit history. Credit scores are produced by third-party credit reporting agencies based on a borrower’s credit profile, including credit balances, available credit, timeliness of payments, average payments, delinquencies and account duration. This data is furnished to the credit reporting agencies by the creditors. A credit score or loan grade assigned to a borrower member by a specialty lending online platform may not reflect that borrower’s actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate reporting data. Additionally, it is possible that, following the date of any credit information received, a borrower may have defaulted on a pre-existing debt obligation, taken on additional debt or sustained other adverse financial or life events.

*Difficulty of Locating Suitable Investments.* VPCA’s clients must rely upon VPCA’s ability to identify, structure and implement investments consistent with its investment objectives and policies. There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable VPCA to invest all of its clients’ committed capital in opportunities that satisfy their investment objectives, or that such investment opportunities will lead to consummated investment transactions on behalf of such clients. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. VPCA’s clients will compete for the acquisition of investments with many other investors, some of which will have greater resources than VPCA. Such competitors may include other private investment funds as well as individuals, financial institutions and other institutional and strategic

investors. Further, there can be no assurance that VPCA will correctly evaluate the nature and magnitude of the various factors that could affect the value of its clients' investments. A variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of VPCA's activities and the value of its clients' investments.

*Illiquidity; Lack of Current Distributions.* An investment in a VPCA Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments are realized. While an investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the investment. Furthermore, the expenses of operating a VPCA Fund (including the management fee payable to the General Partner) may exceed its income, thereby requiring that the difference be paid from the VPCA Fund's capital, including, without limitation, unfunded commitments.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a VPCA Fund's investments, and hence, most of the VPCA Fund's investments will be difficult to value. Certain investments may be distributed in kind to the partners.

*Unseasoned Issuers.* VPCA may invest a portion of its clients' assets with unseasoned issuers, some of which may have been in operation for only a few years or less. The risks of investing in such companies are generally greater than investments in more established companies or opportunities. Some unseasoned issuers may be new or relatively new and have little or no operating history upon which their performance can be evaluated.

*Portfolio Concentration.* The investment portfolios of VPCA's clients may include a small number of large positions. While this portfolio concentration may enhance total returns to the clients, if any large position has a material loss, then returns to the clients may be lower than if they had invested in a well-diversified portfolio.

*Non-U.S. Investments.* A VPCA Fund may invest in portfolio companies that are organized or headquartered or have substantial sales or operations outside of the United States, its territories, and possessions. Such investments may be subject to certain additional risks due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of a VPCA Fund), the application of complex U.S. and non U.S. tax rules to cross-border investments, possible imposition of non-U. S. taxes on a VPCA Fund and/or the partners with respect to the VPCA Fund's income, and possible non-U.S. tax return filing requirements for a VPCA Fund and/or the partners.

Additional risks of non-U.S. investments include: (i) economic dislocations in the host country; (ii) less publicly available information; (iii) less well-developed regulatory institutions; (iv) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction; (v) civil disturbances; (vi) government instability; and (vii) nationalization and expropriation of private assets. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Projections.* Projected operating results of a company in which a VPCA Fund invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different

from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Uncertain Exit Strategies.* VPCA will be unable to predict with confidence what, if any, exit strategy will ultimately be available for many of its client's investments. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time VPCA decides to dispose of such investment due to economic, legal, political or other factors. The success of VPCA's investment strategy depends on its ability to successfully exit, and thereby realize the value of, a significant number of its investments on behalf of its clients.

*Provision of Managerial Assistance and Control.* VPCA may structure investments for certain clients so that they will be considered venture capital operating companies ("VCOC") within the meaning of the U.S. Department of Labor regulations under the Employee Retirement Income Security Act of 1974, as amended. This may require that such clients obtain rights to participate substantially in and to influence substantially the conduct of the management of the majority of the companies in which such clients invest. VPCA typically will designate directors (and potentially non-executive chairmen) to serve on the boards of directors of its clients' portfolio companies, which may include advisory affiliates of VPCA. See "*Client Referrals and Other Compensation — Portfolio Company Management Positions*" below. The designation of directors and other measures contemplated to secure VCOC status could expose the assets of such clients to claims by a portfolio company, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of government regulations and other types of liability. If these liabilities were to occur, VPCA's clients could suffer significant losses in their investments. While VPCA intends to manage its clients' accounts in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

*Leverage.* A VPCA Fund may make use of leverage by incurring debt to finance a portion of its investment in a given portfolio company or other investment. Leverage generally magnifies both a VPCA Fund's opportunities for gain and its risk of loss from a particular investment. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast, and at times it may be difficult to obtain or maintain the desired degree of leverage.

The use of leverage will also result in interest expense and other costs to a VPCA Fund that may not be covered by distributions made to such VPCA Fund or appreciation of its investments. In addition, this leverage could accelerate and magnify declines in the value of a VPCA Fund's investments in the leveraged portfolio companies in a down market.

The General Partner of a VPCA Fund may, in its sole discretion, at any time throughout the life of a VPCA Fund, in light of then-prevailing business and markets conditions and portfolio considerations, amend, modify, restructure or refinance any revolving credit facility or other debt facility (a "Leverage Facility") or other investment leverage with the lender parties and on such terms as the General Partner determines appropriate for such VPCA Fund. In such circumstances, certain terms of any new or amended Leverage Facility may be less favorable than its predecessor facility.

The use of leverage involves a high degree of financial risk. The extent to which a VPCA Fund uses leverage may have important consequences to investors, including, but not limited to, the following: (i) greater fluctuations in the net assets of such VPCA Fund, (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional investments, distributions, or other purposes, (iii) to the extent that such VPCA Fund's revenues are required to meet principal payments, investors may be allocated income (and therefore incur tax liability) in excess of cash available for distribution, (iv) in certain circumstances the Fund may be required to prematurely harvest

investments to service its debt obligations, (v) limitations on the flexibility of such VPCA Fund to make distributions to investors or sell assets that are pledged to secure the indebtedness, and (vi) increased interest expense if interest rate levels were to increase significantly. There can also be no assurance that a VPCA Fund will have sufficient cash flow to meet its debt service obligations. As a result, a VPCA Fund's exposure to losses may be increased due to the illiquidity of its investments generally.

There can be no assurance that a VPCA Fund will be able to obtain indebtedness on terms available to competitors, including terms that may be currently available in the market, or that indebtedness will be accessible by such VPCA Fund at any time, and to the extent that it is available there can be no assurance that such indebtedness will be on terms favorable to such VPCA Fund, including with respect to interest rates, or that such indebtedness will remain available throughout the term of such VPCA Fund. The failure by a VPCA Fund to obtain indebtedness on favorable terms (or at all) could adversely affect the returns of such VPCA Fund.

Any such credit facility provider that permits a VPCA Fund to borrow may accept such VPCA Fund's assets as collateral for such credit facility and may be permitted to require the sale or liquidation of such VPCA Fund's assets held by it as collateral, after default by such VPCA Fund pursuant to the agreement with such credit facility provider. Events of default under any such credit facility may include, among other things, failure to pay amounts due under such credit facility, failure to inform the credit facility provider of certain events with respect to a VPCA Fund, failure to provide the credit facility provider with certain periodic reports and financial statements, breach by a VPCA Fund of other representations and covenants contained in credit facility documentation and other similar terms. In such instances, the credit facility provider may take any such action without notice to the borrowing VPCA Fund or its General Partner. If any such credit facility provider were to require such VPCA Fund to sell or liquidate assets or otherwise act to realize on such collateral, these actions may impair the operational capabilities of the VPCA Fund and have adverse tax and economic effects on such VPCA Fund.

*Uncertain Economic, Social and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which a VPCA Fund makes investments.

*Dynamic Investment Strategy.* While each General Partner generally intends to seek attractive returns for a VPCA Fund through the investment strategy and methods described herein, the relevant General Partner may pursue additional investment strategies and may modify or depart from its initial investment strategy, investment process or investment techniques to the extent it determines such modification or departure to be appropriate and consistent with the relevant Governing Documents. A General Partner may pursue investments outside of the industries and sectors in which VPCA has previously made investments or has internal operational experience.

*Material Non-Public Information.* As a result of the operations of VPCA and its affiliates, VPCA frequently comes into possession of confidential or material non-public information. Therefore, VPCA and its affiliates may have access to material, non-public information that may be relevant to an investment decision to be made by a VPCA Fund. Consequently, a VPCA Fund may be restricted from initiating a transaction or selling an investment which, if such information had not been known to it, may have been undertaken on account of applicable securities laws or VPCA's internal policies. Due to these

restrictions, a VPCA Fund may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

*SBIC Regulatory Considerations; Risks of Leverage.* The SBIC Fund is subject to regulations promulgated by the SBA under the SBIC Act that generally prohibit it from investing in a company unless the company has a net worth (excluding goodwill) of less than \$18 million and average after-tax annual income (exclusive of loss carry-forwards) for the prior 2 years of less than \$6 million. Companies failing that test may still qualify if they meet certain size standards for their industry group which are based on the number of employees (typically 500 for a manufacturing company) or gross revenues. A further requirement is that at least 25% of the SBIC Fund's investments (in dollars) must be made in "smaller enterprises", which are defined as companies with a net worth of not more than \$6 million and average after-tax annual income (exclusive of loss carry-forwards) for the prior 2 years of less than \$2 million. In addition, any funds made available by the SBA are subject to federal funding limitations and SBA approval. Existing SBA policies and funding may change in ways that would impair an SBIC investment vehicle's ability to issue SBA Debentures and thereby achieve the SBIC Fund's investment objectives. As debt instruments, the SBA Debentures would rank senior to equity interests in the SBIC Fund.

An SBIC, such as the SBIC Fund, that issues SBA Debentures generally may only distribute to its investors any net realized, cumulative earnings less unrealized depreciation on portfolio companies (but excluding unrealized appreciation). An SBIC issuing SBA Debentures may not make returns of capital to investors in excess of two percent (2%) in any fiscal year without the prior written approval of the SBA. The typical effect of this restriction is to require a prepayment of SBA Debentures as capital is returned to investors.

The SBIC Program is federally funded, and as such, is subject to the congressional budget and any appropriations that may or may not be approved in any given year. Federal funds allocated to the SBIC Program provide the foundation for the SBA's annual budget and the availability of leverage to SBICs. If the SBIC Program does not receive adequate funding, then the leverage available to existing and newly licensed SBICs could be reduced or eliminated.

In the event of an SBA-imposed liquidation of the SBIC Fund pursuant to the SBIC Act, the SBA's interest would be senior in priority for all purposes to all other interests and any management fee amount would be borne exclusively by the investors (or the SBIC Fund). In certain circumstances, capital may be drawn from the investors to repay amounts drawn from the SBA.

### **Risks Specific to the Vitalogy Fund.**

*The Vitalogy Fund is largely subject to the risk of loss and other risks generally applicable to the other VPCA Funds; however, as a hedge fund generally trading with a long/short strategy, it is subject to specific risks specified in its Governing Documents, including those set forth below.*

*Fixed Income Securities and Loans.* The Vitalogy Fund will invest in bonds or other fixed-income securities of U.S. and non-U.S. issuers, including, without limitation, bank debt, bonds, notes, debentures and commercial paper, potentially including derivatives thereon. Fixed-income securities pay fixed, variable or floating rates of interest. The value of fixed-income securities in which the Vitalogy Fund invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities and bank loans can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability or soundness of economic policies. Fixed-income securities and bank loans are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate

sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

*Timing Risk.* Many agency, corporate and municipal bonds contain a provision that allows the issuer to “call” all or part of the issue before the bond’s maturity date. The issuer usually retains the right to refinance the bond in the future if market interest rates decline below the coupon rate. There are certain disadvantages to the call provision, including, without limitation: (i) the cash flow pattern of a callable bond is not known with certainty; (ii) because the issuer will call the bonds when interest rates have dropped, the Vitalogy Fund is exposed to reinvestment rate risk—the Vitalogy Fund will have to reinvest the proceeds received when the bond is called at lower interest rates; and (iii) the capital appreciation potential of a bond will be reduced because the price of a callable bond may not rise much above the price at which the issuer may call the bond.

*Options.* The Vitalogy Fund may buy or sell (write) call options, and when it writes options it may do so on a “covered” or an “uncovered” basis. A call option is “covered” when the writer owns securities of the class and amount of those as to which the call option applies. The Vitalogy Fund’s options transactions may be part of a hedging tactic, *i.e.*, offsetting the risk involved in another securities position. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions into which the Vitalogy Fund may enter.

When the Vitalogy Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the theoretically-unlimited risk of an increase in the market price of the underlying security or index above the exercise price (although the Vitalogy Fund will rarely be completely uncovered). If the option is covered, an increase in the market price of the security above the exercise price would cause the Vitalogy Fund to lose the opportunity for gain on the underlying security, assuming the Vitalogy Fund bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Vitalogy Fund might suffer as a result of owning the security.

*Swap Agreements.* The Vitalogy Fund intends to enter into one or more swap agreements. Swap agreements generally are two-party contracts entered into by institutional investors, and may have durations of extended periods often exceeding more than one year. In a standard swap transaction, two parties agree to exchange the returns earned on specific assets, such as the return on, or increase in value of, a particular Dollar amount invested at a particular interest rate, in a particular foreign currency, or in a “basket” of securities representing a particular index. A swap contract may not be assigned without the consent of the counterparty, and if unclosed may result in losses in the event of a default or bankruptcy of the counterparty. See “—Counterparty Risk,” below. Some swap agreements are traded in the OTC market and most would be considered to be illiquid.

Total return swaps are swap agreements where a party agrees to pay the counterparty the total return of a defined underlying asset in return for fixed or floating rate payments. There are certain legal, tax and market uncertainties that present risks in entering into such swaps. There is comparatively little historical case law or litigation characterizing total return swaps, interpreting their provisions, or characterizing their tax treatment. In addition, swaps have been subject to increased international regulations and laws in recent years, and additional regulations and laws may apply to total return swaps that have not heretofore been applied. There can be no assurance that future decisions construing similar provisions to those in any total return swap agreement or other related documents or additional regulations and laws will not have a material adverse effect on the Vitalogy Fund.

The total return swap counterparties with which the Vitalogy Fund may do business may encounter financial difficulties, fail, or otherwise become unable to meet their obligations. To the extent the relevant total return swaps are uncleared, any such development would impair the operational capabilities of the Vitalogy Fund or cause damaging losses, or even complete loss, of its capital. To help mitigate this risk, the Vitalogy Fund intends to contract only with major financial institutions with significant experience in issuing total return swaps.

*Short Selling.* The Vitalogy Fund may engage in short selling as part of its investment strategies. A short sale by the Vitalogy Fund involves the sale of a security that the Vitalogy Fund does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Vitalogy Fund must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security. The Vitalogy Fund realizes a profit or a loss as a result of a short sale if the price of the security decreases or increases, respectively, between the date of the short sale and the date on which the Vitalogy Fund covers its short position (*i.e.*, purchases the security to replace the borrowed security). A short sale involves the theoretically unlimited risk of an increase in the market price of the security that would result in a theoretically unlimited loss.

*Derivatives.* The Vitalogy Fund may invest in complex derivative instruments that seek to modify or replace the investment performance of particular securities, commodities, currencies, interest rates, indices or markets on a leveraged or unleveraged basis. These instruments generally have counterparty risk and may not perform in the manner expected by the relevant counterparties, thereby resulting in greater loss or gain to the Investor. These investments are all subject to additional risks that can result in a loss of all or part of an investment, in particular, interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity. Derivatives may have very high leverage embedded in them that can substantially magnify market movements and result in losses greater than the amount of the investment. Some of the markets in which the Vitalogy Fund may effect derivative transactions are “over the counter” (“OTC”) or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Vitalogy Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a credit or liquidity problem with the counterparty. See “—Counterparty Risk” below.

*Counterparty Risk.* Some of the markets in which the Vitalogy Fund may effect transactions are OTC or “interdealer” markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of “exchange-based” markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of a clearinghouse, might not be available in connection with such OTC transactions. This exposes the Vitalogy Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Vitalogy Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Vitalogy Fund has concentrated its transactions with a single or small group of counterparties. The Vitalogy Fund Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of the Vitalogy Fund’s transactions with one counterparty. Moreover, the Vitalogy Fund Adviser has no formal credit function which evaluates the creditworthiness of the Vitalogy Fund’s counterparties. The ability of the Vitalogy Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Vitalogy Fund.

In addition, the counterparties with which the Vitalogy Fund effects transactions may, from time to time, cease making markets or quoting prices in certain of the instruments. In such instances, the Vitalogy Fund may be unable to enter into a desired transaction in currencies, or to enter into an offsetting transaction with respect to an open position, which might adversely affect its performance. Further, in contrast to exchange-traded instruments, spot and option contracts and swaps on currencies do not provide a trader with the right to offset its obligations through an equal and opposite transaction. For this reason, in entering into spot or options contracts or swaps, the Vitalogy Fund may be required, and must be able, to perform its obligations under the contract.

*The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with VPCA's investment program or an investment in any fund or account advised by VPCA. Prospective clients and investors must consult their own advisers before deciding whether to make such an investment. Investors and prospective investors should carefully review the sections on Risk Factors of the offering documents of the applicable VPCA Fund(s). Such documents are available only to current investors or prospective investors who are eligible to invest in such entities, as determined in the sole discretion of VPCA.*

### **Conflicts of Interest.**

VPCA and its related entities engage in a broad range of advisory and non-advisory activities, including investment activities for their own account and for the account of other VPCA Funds, and providing transaction-related, investment advisory, management and other services to VPCA Funds and the portfolio investments of such VPCA Funds. VPCA will devote such time, personnel and internal resources as are necessary to conduct the business affairs of the VPCA Funds in an appropriate manner, as required by the relevant Governing Documents, although the VPCA Funds and their respective investments will place varying levels of demand on these over time. In the ordinary course of VPCA conducting its activities, the interests of a VPCA Fund may conflict with the interests of VPCA, one or more other VPCA Funds, portfolio companies or their respective affiliates. Certain of these conflicts of interest are discussed herein. As a general matter, VPCA will determine all matters relating to structuring transactions and Fund operations using its best judgment considering all factors it deems relevant, but in its sole discretion, subject in certain cases to the required approvals by the advisory committees (or independent client representatives) of the participating VPCA Funds.

Certain inherent conflicts of interest may arise from the fact that VPCA may carry on substantial investment activities for multiple VPCA Funds and other clients simultaneously. VPCA may give advice and recommend investments to, or engage in investment transactions for, certain of its clients, which advice or investments may differ from advice given to, or investments made for, other VPCA clients, even though their investment objectives may be the same or similar.

VPCA has established policies and procedures for allocation of investment opportunities among the various VPCA Funds in a fair and equitable manner, taking into consideration the characteristics of each such fund. Pursuant to these policies, VPCA first analyzes the appropriateness of the investment for the various VPCA Funds based on their available assets (including unfunded capital commitments), existing investments in the Target Company (in the case of follow-on investments) and applicable contractual and regulatory considerations (including, but not limited to, applicable risk and concentration limits, potential tax impact of the investment and compliance with the Employee Retirement Income Security Act of 1974).

VPCA's allocation policies require that investment opportunities first be allocated to the VPCA Funds, if appropriate. However, if there is any remaining capacity in an investment opportunity after VPCA has determined the allocation of such investment among the participating VPCA Funds (in light of the



considerations described above or other limiting factors), VPCA may offer such unused portion of the co-investment opportunity (i) first to investors in the participating VPCA funds who have been granted, via side letter, rights of first refusal relating to co-investment opportunities, *pro rata* based on the size of such investors' respective investments in the participating VPCA Fund(s), and (ii) then, in VPCA's sole discretion, to certain other strategic investment partners (if any). Investments by more than one client of the Advisers in a Target Company may also raise the risk of using assets of a client of the Advisers to support positions taken by other clients of the Advisers.

VPCA's allocation of investment opportunities among the persons and in the manner described herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While VPCA will allocate investment opportunities in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering the relevant factors, there can be no assurance that a VPCA Fund's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made, will be as favorable as they would be if the conflicts of interest to which VPCA may be subject, discussed herein, did not exist.

Where multiple VPCA Funds invest at the same, different or overlapping levels of a Target Company's capital structure, there is a potential for conflicts of interest in determining the terms of each such investment. Questions may arise subsequently as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced or restructured. In troubled situations, decisions including whether to enforce claims, or whether to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring may raise conflicts of interest, particularly with respect to VPCA Funds that have invested in different securities within the same portfolio company. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, VPCA Funds may or may not provide such additional capital, and if provided, each VPCA Fund generally will supply such additional capital in such amounts, if any, as determined by VPCA in its sole discretion. Because of the different legal rights associated with debt and equity of the same portfolio company, VPCA may face a conflict of interest in respect of the advice it gives to, and the actions it takes on behalf of one VPCA Fund versus another VPCA Fund (*e.g.*, the terms of debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies). If a VPCA Fund enters into any indebtedness with another VPCA Fund on a joint and several basis, the applicable Adviser is expected to enter into one or more agreements that provide each VPCA Fund with a right of contribution, subrogation or reimbursement. In administering, or seeking to reinforce, these agreements, VPCA may be subject to conflicts of interest, for example between a VPCA Fund with a reimbursement obligation and a VPCA Fund seeking reimbursement. VPCA intends to mitigate any potential conflicts by structuring such agreement in a manner intended to cause each VPCA Fund to bear its proportionate share of the applicable indebtedness, without undue favoritism.

Conflicts may arise when a VPCA Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another VPCA Fund has already made an investment. A VPCA Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other VPCA Funds. This may result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant VPCA Fund and the other VPCA Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. Conflicts may arise when a Fund makes investments in conjunction with an investment being made by another Fund, or if it were to invest in the securities of a company in which another Fund has already made an investment. A Fund may not, for example, invest through the same investment vehicles, have the same access to credit or employ the same hedging or investment strategies as other Funds. This may

result in differences in price, terms, leverage and associated costs. Further, there can be no assurance that the relevant Fund and the other Fund(s) or vehicle(s) with which it co-invests will exit such investment at the same time or on the same terms. VPCA and its affiliates may express inconsistent views of commonly held investments or of market conditions more generally. There can be no assurance that the return on one VPCA Fund's investments will be the same as the returns obtained by other VPCA Funds participating in a given transaction. Given the nature of the relevant conflicts there can be no assurance that any such conflict can be resolved in a manner that is beneficial to both VPCA Funds. In that regard, actions may be taken for one or more VPCA Funds that adversely affect other VPCA Funds.

Subject to any relevant restrictions or other limitations contained in the Governing Documents of the VPCA Funds, VPCA will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its clients under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, VPCA may be faced with a variety of potential conflicts of interest.

As a general matter, VPCA Fund expenses typically will be allocated among all relevant VPCA Funds or co-invest vehicles eligible to reimburse expenses of that kind. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by VPCA or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. The allocations of such expenses may not be proportional. The VPCA Funds have different expense reimbursement terms, including with respect to management fee offsets, which may result in the VPCA Funds bearing different levels of expenses with respect to the same investment.

A Target Company typically will reimburse an Adviser or service providers retained at an Adviser's discretion for expenses (including without limitation travel expenses) incurred by an Adviser or such service providers in connection with its performance of services for such Target Company. This subjects VPCA and its affiliates to conflicts of interest because the VPCA Funds generally do not have an interest or share in these reimbursements, and the amount of such reimbursements may be substantial. An Adviser determines the amount of these reimbursements for such services in its own discretion, subject to its internal reimbursement policies and practices. Although the amount of individual reimbursements typically is not disclosed to investors in any VPCA Fund, their effect is reflected in each VPCA Fund's audited financial statements, and any fee paid or expense reimbursed to the Advisers or such service providers generally is subject to: agreements with sellers, buyers and management teams; the review and supervision of the board of directors of or other lenders to Target Companies; and/or third party co-investors in its transactions. These factors help to mitigate related conflicts of interest.

An Adviser generally exercises its discretion to recommend to a VPCA Fund or to a Target Company thereof that it contract for services with (i) VPCA or a related person of VPCA (which may include a Target Company of such VPCA Fund or another VPCA Fund), (ii) an entity with which VPCA or its affiliates or current or former members of their personnel has a relationship or from which VPCA or its affiliates or their personnel otherwise derives financial or other benefit or (iii) certain limited partners or their affiliates. For example, VPCA may be presented with opportunities to receive financing and/or other services in connection with a VPCA Fund's investments from certain limited partners or their affiliates that are engaged in lending or a related business. This subjects VPCA to conflicts of interest, because although VPCA selects service providers that it believes are aligned with its operational strategies, VPCA may have an incentive to recommend the related or other person because of its financial or other business interest. There is a possibility that VPCA, because of such belief or for other reasons, may favor such retention or continuation even if a better price and/or quality of service could be obtained from another person. Whether or not VPCA has a relationship or receives financial or other benefit from recommending a particular service provider, there can be no assurance that no other service provider is more qualified to provide the applicable services or could provide such services at lesser cost.

Because certain expenses are paid for by a VPCA Fund and/or its Target Companies or, if incurred by an Adviser, are reimbursed by such VPCA Fund and/or its Target Companies, an Adviser may not necessarily seek out the lowest cost options when incurring such expenses.

Because an Adviser's carried interest is based on a percentage of net realized profits, it may create an incentive for an Adviser to cause a VPCA Fund to make riskier or more speculative investments than would otherwise be the case. Also, because there is a fixed investment period after which capital from investors in a VPCA Fund may only be drawn down in limited circumstances and because management fees are, at certain times during the life of a VPCA Fund, based upon capital invested by such VPCA

Fund, this fee structure may create an incentive to deploy capital when an Adviser may not otherwise have done so.

An Adviser may enter into side letter arrangements with certain investors in a VPCA Fund providing such investors with different or preferential rights or terms, including but not limited to different fee structures, information rights, co-investment rights, and liquidity or transfer rights.

Any of these situations subjects VPCA and/or its affiliates to potential conflicts of interest. VPCA attempts to resolve such conflicts of interest in light of its obligations to investors in the VPCA Funds and the obligations owed by VPCA's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among a VPCA Fund, other VPCA Funds and such investment vehicles in a fair and equitable manner. To the extent that an investment or relationship raises particular conflicts of interest, VPCA will review the circumstances of such investment or relationship with a view to addressing and reducing the potential for conflict. Where necessary, VPCA consults and receives consent to conflicts from an ICR (as defined herein) or an advisory committee consisting of limited partners of the relevant VPCA Fund and such other investment vehicles.

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## DISCIPLINARY INFORMATION

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VPCA is required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of VPCA or the integrity of VPCA's management. VPCA has no such information to report.

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## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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VPCA has engaged and may in the future engage service providers for client accounts (including the VPCA Funds) that are affiliates of VPCA, and has invested and may in the future invest on behalf of its clients in transactions sourced, underwritten, distributed by or otherwise sponsored by affiliates of VPCA, as further described below. The use of affiliated service providers, underwriters, distributors or sponsors may create certain conflicts of interest, including between VPCA's duties to its clients and investors and its incentive to direct business to such affiliates. The use of such affiliates could impair the ability of VPCA to obtain the most favorable terms for services and transactions provided to its clients. Certain of the key affiliate relationships related to VPCA's management of client accounts are described below.

**Victory Park Management.** Victory Park Management, LLC ("VPM") is a wholly-owned subsidiary of VPCA that acts as the collateral manager for the financing transactions entered into by the VPCA Funds

and is responsible for collecting loan payments from the borrowers under such transactions on behalf of VPCA's clients. VPM typically collects due diligence deposits and collateral maintenance fees from the borrowers under VPCA's financing transactions, from which VPM pays third party service providers and its operating costs. In addition, the costs associated with consummating lending transactions on behalf of VPCA's clients generally will be allocated first to VPM to be paid out of the deposits and fees collected by VPM from the relevant borrower, and costs in excess of such deposits and fees will be allocated among VPCA's clients participating in that transaction. VPCA may have an incentive to engage its affiliate, VPM, as collateral manager to the VPCA Funds. However, the deposits and fees charged by VPM are primarily used to pay third party service providers and have generally been set to limit or entirely eliminate any revenue in excess of its costs generated by VPM. In addition, VPCA discloses the deposits and fees paid by borrowers to VPM to the VPCA Funds' Advisory Committees, which includes representatives of certain investors in such VPCA Funds.

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## CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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**Code of Ethics.** VPCA has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, reporting requirements for certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at VPCA must acknowledge the terms of the Code of Ethics annually, or as amended.

VPCA's Code of Ethics includes a personal securities trading policy that applies to the personal trading accounts of all of VPCA's "Access Persons" (as described in the Code of Ethics), including accounts for certain members of their families and households and certain related entities. Access Persons are required to pre-clear all securities transactions in such personal trading accounts with the Chief Compliance Officer (or his designee), except for transactions in certain non-reportable securities (*e.g.*, U.S. government securities, money market fund shares). The Chief Compliance Officer maintains a "restricted list" of securities that may not be traded by Access Persons, which includes all companies that VPCA or one of its clients owns stock or controls one of more board seats, as well as all of the publicly-traded affiliates of such companies and companies in which VPCA has material non-public information. Access persons are required to file reports of their personal securities holdings on an annual basis, as well as quarterly securities transaction reports.

A copy of VPCA's Code of Ethics may be obtained from VPCA's Chief Compliance Officer, Jordan Allen, at (312) 705-2794.

**Principal Trades.** A principal trade is a transaction between VPCA or an affiliate thereof and a client account. Pursuant to Section 206(3) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), any principal trade must be disclosed to, and requires the consent of, the VPCA Fund or other client that is opposite VPCA or its principals or affiliates in such principal trade. Principal trades create a potential conflict of interest between the duties of VPCA and/or its principals and affiliates to VPCA's clients and their desire to maximize their own profits or obtain other benefits with respect to their proprietary trading activities. To help mitigate this potential conflict of interest, the VPCA Funds have engaged Arthur Bell CPAs to act as "independent client representative" (or "ICR") on behalf of each of the VPCA Funds. The role of the ICR is to act as the agent of any VPCA Fund to give or deny such fund's consent to any transaction in which such fund purchases securities or other instruments from, or sells securities or other instruments to, another VPCA Fund (*i.e.*, cross trades) or to VPCA or its principals or affiliates (*i.e.*, principal trades).

**Cross Trades.** VPCA may effect cross trades between clients where it determines that such trades are in the interest of both clients. VPCA and/or its affiliates may have a potential conflict of interest when engaging in cross trades on behalf of its clients, as they may have financial incentives (such as the receipt of higher management fees or fees related to the purchase or sale transaction) to engage in such transactions and/or to favor certain client accounts over others. As indicated above, to help mitigate this potential conflict of interest, the VPCA Funds have engaged Arthur Bell CPAs to act as “independent client representative” to act as the VPCA Funds’ agent in reviewing and granting consent to cross trades and certain other transactions.

**Investment by VPCA and its Affiliates.** Principals and employees of VPCA and its affiliates may directly or indirectly own an interest in VPCA Funds. Co-invest opportunities may also be presented to certain affiliates of the Advisers, as well as third party investors and other persons, and such co-investments may be effected through co-invest vehicles or directly in a particular Target Company. Additionally, a VPCA Fund may invest together with other VPCA Funds advised by an affiliated adviser of VPCA in the manner set forth in the applicable Governing Documents and the Adviser’s Allocation Policy.

VPCA and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in a VPCA Fund, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, any VPCA Fund, even though their investment objectives may be the same or similar.

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## BROKERAGE PRACTICES

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### **Generally**

As described above, it is anticipated that the majority of the investment transactions entered into by VPCA on behalf of its clients (other than the Vitalogy Fund, as discussed below) will be privately negotiated lending or investment transactions with Target Companies. However, in the event that VPCA purchases or sells publicly traded securities on behalf of its clients, it may use the services of a broker-dealer or prime broker. In such event, VPCA or its advisory affiliates will select the broker-dealers used to execute transactions on behalf of such client.

The Advisers have discretion to select different brokers to be used for each transaction for their clients and to negotiate the rates and commissions their clients will pay. The Advisers may not adhere to any rigid formula in making the selection of brokers, but will weigh a combination of criteria consistent with their obligation to seek “best execution” for their clients. In selecting brokers to execute transactions, the Advisers need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Brokers will be selected generally on the basis of best execution, which may be determined by considering, in addition to price and commission rates, other factors including special execution capabilities, clearance, settlement, other transaction charges, block trading and block positioning capabilities, financial strength and stability, efficiency of execution and error resolution, the availability of stock to borrow for short trades, custody, recordkeeping and similar services.

**Aggregation and Allocation of Client Orders/Investments.** As noted above, VPCA’s investments on behalf of its clients do not customarily involve the execution of securities transactions by a broker-dealer or prime broker. With respect to the privately negotiated lending and investment transactions undertaken

by VPCA, VPCA has an established methodology for the allocation of such investments among the VPCA Funds. See “Other Financial Industry Activities and Affiliations - Management of Other Client Accounts.”

*Vitalogy Fund.* The Vitalogy Fund intends to regularly buy and sell publicly traded securities. When doing so, the Vitalogy Fund Adviser is responsible for directing orders to broker-dealers to effect such transactions. As discussed above, the Advisers have discretion in selecting brokers and will seek to select brokers on the basis of best execution, which generally is determined based on the factors listed above.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, each relevant VPCA Fund may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them. VPCA historically has not made use of such services but expects to in the future with respect to the Vitalogy Fund (although, generally, not with respect to the other VPCA Funds). Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. Research services may be shared between an Adviser and its affiliates.

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## REVIEW OF ACCOUNTS

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**Account Reviews.** The VPCA Funds have engaged third-party fund administrators who provide day-to-day administrative and bookkeeping services to the VPCA Funds. The investments of the VPCA Funds are regularly reviewed by VPCA’s portfolio managers. In addition, the bookkeeping records maintained by the fund administrator are reconciled to VPCA’s records by VPCA’s operations personnel, under the supervision of the Chief Financial Officer, generally on a quarterly basis.

**Client Reporting.** VPCA furnishes audited financial statements and tax information necessary for the completion of tax returns annually to all investors in the VPCA Funds. Such investors are also provided with quarterly unaudited reports including information regarding such fund’s performance, portfolio composition, Target Company financial information and collateral overview and the current balance of the investor’s investment in such fund.

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## CLIENT REFERRALS AND OTHER COMPENSATION

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**Portfolio Company Management Positions.** As part of VPCA’s investment strategy, the Advisers or VPCA principals, may serve in managerial roles with certain of the Target Companies in which VPCA’s clients invest, and may be entitled to compensation in connection therewith. See “*Methods of Analysis, Investment Strategies and Risk of Loss - Provision of Managerial Assistance and Control*” above. The receipt of such compensation by VPCA’s advisory affiliates creates a potential conflict of interest, as it could be seen as providing an incentive for VPCA to cause its clients to make investments they would not

otherwise make, or for structuring them for the purpose of helping VPCA's advisory affiliates obtain compensation to the possible detriment of the deal terms accorded to VPCA's clients. As described in the relevant Governing Documents, this compensation in many cases offsets all or a portion of the management fees paid by a VPCA Fund. However, in other cases (*e.g.*, reimbursements for out-of-pocket expenses related to a portfolio company or amounts paid for serving in an employment or similar capacity), these amounts generally will be in addition to management fees.

From time to time, VPCA may enter into solicitation arrangements pursuant to which it compensates third parties for referrals that result in a potential investor becoming a limited partner in a VPCA Fund. Any fees payable to any such placement agents will be borne by VPCA indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Fund(s). VPCA has arrangements with several third-party marketers to perform such services:

- (i) Coburn Group, LLC (for Fund I)
- (ii) Trump Securities, LLC (for VPC Specialty Finance Fund I, L.P.)
- (iii) Focus Point Private Capital Group (for VPC Investor Fund B, LLC)
- (iv) Park Hill Group, LLC (for Fund III, VPC Specialty Lending Fund I, L.P., VPC Offshore Unleveraged Private Debt Fund, L.P. and VPC Investor Fund C, L.P.)
- (v) Jeffries Hoare Govett (for VPC Specialty Lending Investments PLC)

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## CUSTODY

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VPCA has custody of the funds and securities of the VPCA Funds, which are maintained at one or more "qualified custodians," as defined under Rule 206(4)-2 under the Advisers Act. A "qualified custodian" generally is a bank or savings association that has deposits insured by the U.S. Federal Deposit Insurance Corporation, an SEC-registered broker-dealer, a futures commission merchant or a foreign financial institution that holds segregated customer assets. An independent public accountant registered with the PCAOB will audit each of the VPCA Funds on an annual basis, and copies of the audited financial statements will be sent to the investors in the VPCA Funds, as described above in "*Review of Accounts.*" VPCA has arrangements with several qualified custodians to perform such services:

- (i) The Private Bank (for all VPCA Funds and the UK Fund)
- (ii) The Northern Trust Company (for all VPCA Funds and the UK Fund )
- (iii) Merrill Lynch, Pierce, Fenner & Smith Incorporated (for the UK Fund and all VPCA Funds other than the Vitalogy Fund)
- (iv) Bank of America Merrill Lynch (for the Vitalogy Fund)
- (v) Goldman Sachs (for the Vitalogy Fund)
- (vi) Square 1 Bank (for Victory Park Credit Opportunities Fund, L.P.)
- (vii) Beverly Bank & Trust, N.A. (for the SBIC Fund)
- (viii) US Bank (for VPC Specialty Lending Fund I, L.P., VPC Investor Fund B, L.P., VPC Investor Fund C, L.P., VPC Specialty Lending Fund (NE), L.P. and the UK Fund)
- (ix) Wells Fargo Bank (for Fund III, VPC Investor Fund B, L.P., VPC Investor Fund C, L.P.)
- (x) Deutsche Bank Trust Company of America (for VPC Fund II, L.P. and the UK Fund)
- (xi) Millennium Trust Company (VPC Investor Fund C, L.P. and the UK Fund)
- (xii) MB Financial Bank (for VPC Fund II, L.P. and the UK Fund)

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## INVESTMENT DISCRETION

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VPCA exercises discretionary authority over the accounts of its VPCA Fund clients under the Governing Documents, which typically grant a power of attorney or similar discretionary right in favor of VPCA to select the investments and amounts to be bought or sold for its clients. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. In rare cases, VPCA may agree to additional contractual diversification or concentration limitations in connection with substantial investments made by strategic investors in the VPCA Funds.

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## VOTING CLIENT SECURITIES

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### **Generally**

Because of the nature of VPCA's investment program for VPCA Funds other than the Vitalogy Fund, it does not anticipate that it will regularly receive proxies with respect to securities owned by its clients. However, VPCA holds the authority to vote such proxies (if any), and has adopted proxy voting policies and procedures (the "Proxy Voting Policy") designed to ensure that such proxies are voted in the best interests of VPCA's clients. Pursuant to VPCA's proxy voting procedures, in the event that VPCA receives proxies sent to its advisory clients, the Chief Compliance Officer will be responsible for convening a meeting of VPCA's Principals and other investment personnel with knowledge of the company to which such proxies relate, who will generally make a determination on voting such proxies by majority vote. However, VPCA may also determine to engage an independent third party to cast a particular proxy vote where VPCA determines that such engagement is in the best interests of its clients. Except as described below, clients generally may not direct specific proxy votes for the securities held in their accounts.

If VPCA identifies a material conflict of interest in casting a particular proxy vote, VPCA generally will seek to mitigate the conflict by either appointing an independent third party to vote the proxy or by disclosing the conflict to its clients (including investors in the applicable VPCA Funds) and providing them with an opportunity to vote the proxies.

### **Vitalogy Fund**

Unlike the other VPCA Funds, based on the nature of the investment program for the Vitalogy Fund, which is expected to include a portfolio of long and short public equity securities, VPCA anticipates that it will regularly receive proxies with respect to securities owned by the Vitalogy Fund. Accordingly, when it receives such proxies, VPCA will follow its Proxy Voting Policy, as described above.

Clients may obtain a copy of VPCA's complete proxy voting policies and procedures and information about how VPCA voted any proxies on behalf of their account(s) by contacting VPCA's Chief Compliance Officer, Jordan Allen, at (312) 705-2794.

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## FINANCIAL INFORMATION

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VPCA does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of its Firm Brochure.



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